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In The
Supreme Court of the United States

METRO-GOLDWYN-MAYER STUDIOS INC., *ET AL.*,
Petitioners,

v.

GROKSTER, LTD., *ET AL.*,
Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF OF *AMICI CURIAE* LAW PROFESSORS, ECONOMICS PROFESSORS, AND TREATISE AUTHORS IN SUPPORT OF PETITIONERS

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INTEREST AND IDENTITIES OF *AMICI CURIAE*

Amici curiae are law professors, economics professors, and authors of intellectual property treatises.[1] They file this brief in support of Petitioners because of the important constitutional, economic, and public policy interests that depend on the consistent application of copyright law and the prudent formulation of technology policy. *Amici* believe that these interests have been threatened by the Ninth Circuit's ruling below, which departed from established principles of contributory and vicarious copyright liability and which misapprehended the policy rationales upon which those two doctrines rest. The standards that the Ninth Circuit articulated and applied are simply unworkable in the online environment.

The interests of *amici* go beyond the academic. As authorities in their fields, they train future generations of copyright practitioners and judges, advise creators and users of copyrighted works on how to protect their rights, and provide assistance to technological innovators who wish to avoid running afoul of copyright law in their enterprises. Because of disagreements among the federal appellate courts on vital questions of copyright law and technology policy, these important constituencies lack clear guidance on the application of secondary liability in the information age. Clarifying the standard that the Court set forth over twenty years ago, *see Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), will permit authors of copyrighted works and the developers of network technologies to reliably predict their legal rights and duties in a networked world, and will permit innovation in both the arts and technology to continue to

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[1] No counsel for any party authored this brief in whole or in part, and no person or entity other than the *amici curiae* made a monetary contribution to its preparation or submission. *See* S. Ct. R. 37.6. *Amici* understand that all parties have consented to the submission of this brief and that their letters of consent are on file with the Court. *See id.* R. 37.2(a).

flourish.

The following identifies the *amici curiae* who have joined this brief:

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Stan Liebowitz is a professor of economics and Director of the Center for the Analysis of Property Rights and Innovation at the School of Management at the University of Texas at Dallas. He has written five books and numerous articles, among them the first article (in 1985) suggesting conditions under which unauthorized copying might be beneficial to copyright owners. He gave the inaugural keynote address to the Society for Economic Research on Copyright Issues in 2002, and this year agreed to become a vice president of the

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Roger Milgrim is a private practitioner in New York City, specializing in high-tech intellectual property law. He is also the author of the treatises *Milgrim on Trade Secrets* and *Milgrim on Licensing*, both of which address the interface between copyright and other intellectual property rights. Mr. Milgrim served for over twenty years as an adjunct professor at New York University School of Law, where he taught courses in intellectual property.

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INTRODUCTION AND SUMMARY OF ARGUMENT

Copyright law strikes an important balance between private incentive and public benefit. Too much private control over copying and dissemination of creative expression denies the public access to valuable works and to the raw materials needed for further innovation. Too little control results in an insufficient impetus to produce the works in the first place.

This balance varies, however, depending on how information goods are packaged and disseminated. In other words, copyright law has to strike a balance not only between private incentive and public benefit, but also between authorial innovation and technological innovation. If copyright gives authors too much control over the technologies of reproduction and distribution, then technological innovation suffers. But if copyright turns a blind eye to the widespread and unregulated use of technologies that facilitate low-cost infringement, then authorial innovation suffers.

In the ruling on certiorari here, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154 (9th Cir. 2004), the Ninth Circuit upset this balance by relieving from liability technologists who intentionally facilitate widespread online infringement. This decision left copyright owners with no meaningful remedy for rampant piracy and departed from the principles set forth twenty years ago in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). Indeed, changes in information technology have slowly but surely overtaken the *Sony* standards, resulting in confusing and conflicting rulings in the federal appellate courts. The

immediate problem involves Internet file-sharing, but if the Ninth Circuit's decision stands it could negatively affect myriad existing technologies, undermine the copyright system, destroy the economic viability of legitimate file-sharing services, and retard future innovation in both the technological and authorial communities.

This Court should therefore play the role that it has always played in this field by interpreting the law in light of new technological developments and establishing sound standards for secondary copyright infringement. The Ninth Circuit's ruling considerably weakened the venerable copyright doctrine of secondary liability and will almost certainly further encourage the creation and dissemination of technologies intended to promote widespread piracy. The careful balance that this Court once struck between the interests of copyright owners and technological innovators needs to be restored. To put it in the parlance of the information age, we need *Sony* version 2.0.

ARGUMENT

I. The Ninth Circuit Oversimplified the Application of the *Sony* Defense to Respondents' Programs.

In *Sony*, this Court formulated a defense against secondary copyright liability for the manufacturer of a staple article of commerce. The new standard—whether the article was capable of substantial and commercially significant noninfringing uses —was dispositive in *Sony*, where the amount of infringing activity was unknown and the record showed that the principal use of the technology at issue (the Betamax video recorder) was non-infringing. *See* 464 U.S. at 442-56.

The opposite is true in the instant case. Here, Petitioners suffer thousands of documented acts of infringement every day. The technologies that facilitate and encourage this infringement

may be capable of non-infringing uses as well, but the extent to which they are actually used for legitimate purposes is much less certain. Thus *Sony* is not dispositive here, but merely raises new questions about the comparative magnitude of infringing and non-infringing uses.

The Ninth Circuit got those questions wrong in two important ways. First, it overlooked the importance of a factor that was absent in *Sony* but that has traditionally played a role in secondary liability: the defendant's intent. In *A&M Records, Inc. v. Abdallah*, 948 F. Supp. 1449, 1456 (C.D. Cal. 1996), for example, the court ruled that because defendant's "time-loaded" audio cassettes were "specifically manufactured for counterfeiting activity," *Sony* provided no defense—"even if such products ha[d] substantial noninfringing uses." This ruling was consistent with the *Sony* doctrine's origins in patent law, which holds a defendant liable for intentionally inducing patent infringement even if the infringing technology has substantial noninfringing uses. *Compare* 35 U.S.C. § 271(b) (imposing liability on "[w]hoever actively induces infringement"), *and Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990) (holding that section 271(b) requires intent to induce), *with* 35 U.S.C. § 271(c) (imposing liability on seller of infringing technology not "suitable for substantial noninfringing use"), *cited in Sony*, 464 U.S. at 440. In the instant case, the district court recognized that Respondents "may have intentionally structured their businesses to avoid indirect liability for copyright infringement, while benefiting financially from the illicit draw of their wares." *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 259 F. Supp. 2d 1029, 1046 (C.D. Cal. 2003), *aff'd*, 380 F.3d 1154 (9th Cir. 2004). Yet both lower courts declined to consider this factor.

Second, the court of appeals oversimplified the inquiry into non-infringing uses so severely that *it is difficult to conceive of a technology* that could not avail itself of the *Sony* defense

under its reasoning. The court's greatest error was its narrow focus on the issue of whether the Respondents' file-sharing programs were "capable" of non-infringing uses. 380 F.3d at 1161. Any digital technology is theoretically "capable" of non-infringing uses; computers are blind to the content of the ones and zeroes they process, and thus can copy public domain content as readily as pirated content. The court below accordingly proclaimed—essentially by judicial fiat—that the programs at issue had "commercial viability" sufficient to excuse their developers from all liability.

The question that *Sony* asks, however, is whether the non-infringing capability is both "substantial" and "commercially significant."[2] These standards call not for deference to anecdotal evidence of theoretical uses, but for the kind of cost/benefit analysis that the court below explicitly rejected. *See* 380 F.3d at 1162 (viewing as irrelevant evidence that "the vast majority of the software use is for copyright infringement"). *Sony* was intended to mediate the tension between infringing and non-infringing uses, but it will fail in that mission if courts ignore the scale of infringement simply because a technology has some remotely plausible non-infringing use.

II. The Ninth Circuit Confused and Conflated the Two Theories of Secondary Liability and Provided the Wrong Incentive to Technological Innovators.

Federal courts recognized long ago that it is just to hold certain parties liable for copyright infringement that they

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[2] The Ninth Circuit erroneously read *Sony* as protecting articles of commerce capable of substantial *or* commercially significant non-infringing uses. *See, e.g., Grokster*, 380 F.3d at 1160. But *Sony* makes it clear that non-infringing uses must be both substantial *and* commercially significant. *See* 464 U.S. at 442.

themselves did not commit. *See, e.g., Kalem Co. v. Harper Brothers*, 222 U.S. 55, 63 (1911) (finding defendant who "contribute[d]" to infringement "liable on principles recognized in every part of the law"). Over time, this concept of secondary liability evolved into the two discrete theories of contributory and vicarious liability. Contributory liability required proof of the infringer's knowledge of the infringement and its material contribution thereto. *See, e.g., Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996); *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971). Vicarious liability required proof of the defendant's right and ability to control the infringement as well as a direct financial interest therein. *See, e.g., Fonovisa*, 76 F.3d at 262; *Gershwin*, 443 F.2d at 1162. The court below, however, departed from this established jurisprudence in confusing and counterintuitive ways. It emphasized issues that have no relation to either theory of liability, used one theory's elements in the analysis of the other, and ignored factors that bear directly on Respondents' culpability.

Start with the court's contributory liability analysis. Respondents do not dispute that their programs make it possible for millions of individuals to engage in infringing copying and distribution of files, nor that they were aware of this use even before distributing their programs. Yet despite Respondents' knowledge of and material contribution to this infringement, the Ninth Circuit found neither element of contributory liability satisfied, due to a mere quirk of timing and intentional design choices: Respondents lack the ability to control each individual act of the infringement *at the moment it takes place*. *See* 380 F.3d at 1162.

Thus the Ninth Circuit would excuse a software developer who designed a program for the specific purpose of facilitating unauthorized copying and online propagation of copyrighted music, who marketed and promoted the program for that purpose, and who made millions from distribution of the

program—as long as it was careful not to make the program capable of controlling the infringement. This legal nicety means that such a developer would have no "knowledge" of the infringement it knowingly enabled and would not have "contributed" to the infringement to which it clearly contributed. The design of the program—the very crux of the offending conduct—is somehow deemed irrelevant to the analysis.

The emphasis on timing and control, which the court claimed to derive from the *Sony* decision, *see Grokster*, 380 F.3d at 1162, is misplaced in the contributory liability context. A defendant's ability to control and curtail infringement has traditionally been an element of *vicarious* liability, *see, e.g., Fonovisa*, 76 F.3d at 262; *Gershwin*, 443 F.2d at 1162, and *Sony* does nothing to change that. Yet even in the vicarious liability analysis, the Ninth Circuit's approach is flawed; it ruled that because the Respondents' programs do not readily allow them to monitor and curtail infringement as it takes place, they lack the "right and ability" to control the infringement. 380 F.3d at 1165.

The problem with the court's approach to both theories of secondary liability was its lack of attention to the conduct that formed the basis for the entire litigation: the design of Respondents' software. The court viewed the defendant's technology as static—fixed in both time and design. The notion that a defendant might alter its technology so as to minimize its infringing uses was relevant only to remedy, not liability. *Id.* at 1165-66; *see also A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1024 (9th Cir. 2001) (noting that defendant's ability to control infringement "is cabined by the system's current architecture").

This is the equivalent of allowing a co-conspirator to avoid conviction because he was miles away when the crime took place. It also invites parties to game the system rather than

account for legitimate copyright interests. For example, suppose a dance hall operator hosts a public performance of both unlicensed copyrighted music (infringing) and certain public domain works (non-infringing). He advertises the performance, profits from advance ticket sales, helps the band tune its instruments—and then, at the last minute, insists on being locked in the broom closet during the performance itself. Under the reasoning below, the operator is not liable for either contributory infringement or vicarious infringement, simply because (by dint of his own artful planning) he lacked the ability to halt the infringing conduct when it was taking place.

The Ninth Circuit's reasoning is also flatly inconsistent with this Court's seminal ruling on secondary copyright liability, *Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911). The defendant in *Kalem* produced, advertised, and distributed a film derived from the book *Ben Hur* without securing the author's permission. *Id.* at 60-61. The infringing act, however, was the public showing of the film, which was undertaken by independent parties whom the defendant did not control. Justice Holmes nevertheless imposed liability:

> The defendant not only expected but invoked by advertisement the use of its films for dramatic reproduction of the story. That was the most conspicuous purpose for which they could be used, and the one for which especially they were made. If the defendant did not contribute to the infringement it is impossible to do so except by taking part in the final act. It is liable on principles recognized in every part of the law.

Id. at 62-63. In contrast, the court below did not care that the Respondents set out to be "the next Napster" and designed and promoted their programs accordingly. *See* 380 F.3d at 1164. Indeed, the Ninth Circuit refused to consider even modest efforts to adapt their technology to copyright concerns. *Id.* at

1166 (holding that "possibilities for upgrading software located on another person's computer are irrelevant to determining whether vicarious liability exists").

In short, the decision below gives technologists an incentive *not* to accommodate copyright law, but rather to purposely subvert it by intentionally avoiding design choices that would allow them to control or curtail infringement. This is the exact opposite of what secondary liability is supposed to do. In the information age, as before, the party in the best position to anticipate and address the consequences of an undertaking bears the responsibility of fashioning its enterprise to avoid foreseeable harm.

III. The Ninth Circuit's Decision Undermines the Doctrine of Secondary Liability.

Authors, artists, and their publishers have long depended on the doctrine of secondary liability to give meaning to their copyrights. If the Ninth Circuit's ruling stands, however, copyright owners will be left with no effective remedy for the unprecedented levels of infringement they are now suffering. *See* Stan Liebowitz, *File-Sharing: Creative Destruction or Just Plain Destruction?* (Dec. 2004) (discussing harmful economic effects of file-sharing), *available at* http://som.utdallas.edu/capri/destruction.pdf. The court of appeals would direct Petitioners to seek relief against the direct infringers, but the reality is that commencing legal proceedings against the millions of individuals who use Respondents' programs to infringe is an impossible task. Every copyright owner would have to identify each individual infringer, conduct discovery to gather the necessary evidence for each act of infringement, file suit, secure a judgment, collect damages, and enforce an injunction. Given the vast number of individual file-sharers, this is an absurd prospect. The only realistic options here are to impose secondary liability or to allow rampant infringement

to continue without hope of a meaningful legal remedy. The Ninth Circuit chose the latter.

Why have secondary liability at all, if not for use against a single intermediary that facilitates millions of individual infringements by diffuse and largely judgment-proof end-users? This is the very circumstance for which the doctrine was conceived. Both contributory and vicarious liability derive from a recognition that those who induce, contribute to, or have the ability to control infringement are often in the best position to end the illegal action. Both justice and common sense thus require that those who intentionally make possible, encourage, and derive the ultimate benefit from copyright infringement should be held liable, even though they themselves are not direct infringers of copyrights. "[T]he purposes of copyright law may be best effectuated by the imposition of liability upon the beneficiary of [an unauthorized] exploitation." *Shapiro, Bernstein & Co. v. H. L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963).

In the online environment, the economic and policy justifications for contributory and vicarious liability resonate particularly strongly. Clearly a party seeking to enforce its copyright online cannot efficiently or effectively control the millions of infringements that occur daily on Respondents' networks. Only Respondents have both the ability and financial incentive to curtail the infringement. They will do so, however, only if properly motivated by firm, clear legal precedent.

IV. The Court Should Not Defer to the Legislature On These Important Issues.

The court below suggested that Congress, not the courts, should fine-tune the doctrine of secondary copyright liability. 380 F.3d at 1167. Such deference to the legislature would be inconsistent with precedent and unwise as a matter of policy.

As the Ninth Circuit itself recently expressed in similar circumstances:

> The legislature . . . is always free (within constitutional bounds) to refashion the system that courts come up with. But that doesn't mean we should throw up our hands and let private relations degenerate into a free-for-all in the meantime. We apply the common law until the legislature tells us otherwise. And the common law does not stand idle while people give away the property of others.

Kremen v. Cohen, 337 F. 3d 1024, 1036 (9th Cir. 2003) (involving dispute over use of Internet domain name).

The important legal concepts discussed above are all common law, wholly devised by federal judges. Contributory liability descended from the concept of enterprise liability. *Demetriades v. Kaufmann*, 690 F. Supp. 289, 292 (S.D.N.Y. 1988). Vicarious liability derives from the doctrine of *respondeat superior*. *Id.* Even *Sony*'s staple article of commerce doctrine was a new, judicially created defense with "no precedent in the law of copyright." 484 U.S. at 439.

Moreover, the legislative branch has frequently indicated its approval of this judicial stewardship of secondary liability and endorsed its continuation. When Congress amended the copyright statute in 1976, it expressly recognized contributory and vicarious liability; the phrase "to authorize" in 17 U.S.C. § 106 "was intended to avoid any questions as to the liability of contributory infringers." H.R. Rep. No. 94-1476, at 61 (1975). Congress again acknowledged the validity of the judge-made doctrine of secondary liability when it enacted one safe harbor for secondary transmissions of television programs, 17 U.S.C. § 111, and then another for online service providers, *id.* § 512 —neither of which would be necessary if Congress did not recognize the validity of secondary liability in the first place. *See also* 17 U.S.C. § 1201(c)(2) ("Nothing in this section shall

enlarge or diminish vicarious or contributory liability for copyright infringement . . . .").

Furthermore, if the Court chooses to issue a narrow ruling and leaves important questions for a congressional answer that may never arrive, it risks abandoning vital legal issues to the vicissitudes of technology, which are unlikely to strike the right balance between private incentive and public benefit and between authorial innovation and technological innovation. The better course is to resolve the stalemate now by clearly defining the legal rights and duties of both sets of innovators in a world of digital networks. In the past, this Court has not hesitated to clarify *Sony* when lower courts have misread its standards. *See Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 583-85 (1994) (rejecting "a presumption ostensibly culled from *Sony*" that every commercial use of copyrighted material is unfair). It should not hesitate now.

CONCLUSION

In *Sony*, this Court's aim was to "strike a balance between a copyright holder's legitimate demand for effective—not merely symbolic—protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce." 464 U.S. at 442. The Ninth Circuit's ruling here has upset that balance. It leaves copyright owners with a merely symbolic remedy for rampant piracy. It allows those who intentionally facilitate infringement to escape liability. And it leaves authorial and technological innovators without a liability standard that is both attentive to copyright law's first principles and flexible enough to adapt to future technological developments. *Amici* accordingly urge this Court to reverse the Ninth Circuit's decision.

Respectfully submitted,

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